LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
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FISCAL IMPACT STATEMENT

LS 7622
BILL NUMBER: SB 620

DATE PREPARED: Mar 5, 1999
BILL AMENDED: Mar 4, 1999

SUBJECT: Indiana Comprehensive Health Insurance Association.

FISCAL ANALYST: Alan Gossard
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FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: (Amended) This bill provides that the Indiana Comprehensive Health Insurance Association may borrow funds from the state or a financial institution to provide working capital. The bill provides that the rates for a given classification of insurance may be between 130% and 175% of the average premium rate for that class charged by the five carriers and health maintenance organizations with the largest premium volume in the state during the preceding calendar year so long as the median of the rates is 150%.

This bill limits the total value of loss assessments to association members to the average of the sum of the total assessments plus the claims submitted to the State Budget Agency for the three most immediate fiscal years. The bill requires that the association, on a semi-annual basis, submit to the State Budget Agency claims for amounts necessary for performance of the Association's functions that exceed the assessment limitation.

Effective Date: July 1, 1999.

Explanation of State Expenditures: (Revised) This bill makes changes to the ICHIA program. The bill changes the amount that insureds may be charged for premiums to not less than 130% and not more than 175% of the average premium rate charged by the five insurance carriers and HMOs with the largest premium volume in the state during the preceding calendar year. (Currently the premiums could not be more than 150%.) However the median rates for a given classification must be 150% of the average premium rate for that class.

The bill also limits the aggregate assessments on ICHIA members to the average of the aggregate assessments for the previous three fiscal years. ICHIA is to submit claims to the State Budget Agency for the amounts required in excess of the assessment limitation. Due to the ability of member insurance companies to take a corresponding tax credit, the state General Fund is already paying for most ICHIA assessments in the form of reduced tax revenues. However, there will be some net additional cost or lost revenue to the General Fund in an amount equal to the value of tax credits never taken plus the value of interest earned on the amount of assessments over the assessment limitation provided in the bill.

Member insurance companies who have paid assessments to ICHIA are currently permitted to take a dollar-for-dollar credit against premium taxes, gross income taxes, adjusted gross income taxes, supplemental corporate net income taxes, or any combination of these, up to the amount of the taxes due for each calendar year in which the assessments were paid and for succeeding years until the total of the assessments has been offset. Thus, the state General Fund is already paying for most ICHIA assessments in the form of reduced tax revenues. However, there are two reasons why the state General Fund benefits from use of the ICHIA assessment mechanism: (1) Some tax credits may never be taken due to consistently unprofitable years for some companies; and (2) the state earns interest on funds before the tax credit can be claimed. These are described, below.

Although a member insurance company may not be able to take the full credit in years of little or no profit, over time the credits would be expected to eventually be used. The exceptions might be for those companies who have paid assessments and then ceased operations before being able to take full advantage of their accumulated credit and also for those companies that rarely make enough profit to take full advantage of the credits.

The ICHIA assessment mechanism also allows the General Fund to benefit from interest earnings from the delay between the time the assessment is made on the member insurance companies and when the corresponding tax credit can be claimed in the following year (and longer for those firms incurring losses and not able to take the credit in the first year available).

The actual ICHIA assessments between 1994 and 1998 are provided in the following table.

ICHIA Assessments, CY94-CY98.

CY	Total Assessments
1994	$10,717,540
1995	$17,479,402
1996	$17,000,953
1997	$17,511,556
1998	$23,500,000

This bill takes effect for the FY2000 assessments. Two ICHIA expenditure growth scenarios are provided in the following table: (a) 3.6% annual growth from the 1998 assessment period (This is equivalent to the average annual growth in the medical component of the Consumer Price Index since 1993); and (b) 21.69% annual growth (This reflects the average annual growth in ICHIA assessments between 1994 and 1998).

Two Growth Scenarios for ICHIA Expenditures and Premium Revenues.

Year	Premium Growth @ 3.6%	Assessment Growth @ 3.6%	Premium Growth @ 21.69%	Assessment Growth @ 21.69%
1997	14,600,000	17,511,556	14,600,000	17,511,556
1998	15,125,600 *	23,500,000	17,766,740 *	23,500,000
1999	15,670,122 *	24,346,000 *	21,620,346 *	28,597,150 *
2000	16,234,246 *	25,222,456 *	26,309,799 *	34,799,872 *
Less 3-Year Ave. Assessment		(21,785,852)		(23,202,902)
Directly From General Fund:		**3,436,604**		**11,596,970**
* Projected				

The bill provides that ICHIA can charge premiums to insureds from 130% o 175% of the average premiums charged by the five insurance carriers and HMOs with the largest volume of premiums, statewide so long as the median of the rates is 150%. Currently the premiums may not be more than 150%. It is unknown how much additional premium revenue will be generated from this change. In the table, above, the greater the growth rate of premiums, the more dollars that are paid directly from the General Fund. If the dollars that would be required to be paid directly from the General Fund, according to the two scenarios above, were invested at 5.65% (the five-year average for state investments) for six months, investment earnings would range from about $97,000 to $328,000. (Assessments are predominantly paid in June and December.) With the passage of this bill, that income to the General Fund would be forgone by the state.

In summary, although the state General Fund ultimately pays for most ICHIA assessments, anyway, there would be some additional cost to the General Fund from the assessment limitation as provided in this bill.

Explanation of State Revenues: See Explanation of State Expenditures, above, regarding tax credits taken for ICHIA assessments.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: ICHIA

Local Agencies Affected:

Information Sources: Marjorie Maginn, Anthem, Inc., 488-6351.